



MINUTES

Finance Committee

held at

Council Administration Centre
Committee Room
180 Mort Street, Lithgow

on

Monday 19 April 2021

at 3:30 PM

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The Chairperson declared the meeting open at 3.30pm.

1. Present

Clr Ray Thompson, Clr Steve Ring, Craig Butler, Ross Gurney

2. Apologies

Clr Wayne McAndrew

3. Declaration of Interest

NIL

4. Presentations

NIL

5. Staff Reports

5.1. Annual Audit Engagement Plan

CFIO provided the Annual Audit Engagement Plan to the Committee as it falls within the Committee's Terms of Reference, setting out the key points and main issues and risks identified in the plan.

The Audit Office in consultation with Council determine the key issues and risks to include in the plan. Some are industry generic and others are specific to Council.

Some of the key issues are COVID 19 and assessing the fair value of Council's infrastructure, property, plant and equipment.

The Committee discussed the development of the new store and impacts on the Gasworks site rehabilitation provision. Management will reassess the rehabilitation provision at 30 June 2021. Council staff are reviewing the property portfolio to see what the highest and best use is and develop business cases on alternate options.

The external auditors have sent an extensive information request ahead of the interim audit which staff are working through ahead of their visit next week.

The CFIO highlighted the key dates included in the plan. We work around the Council meetings as to when we need to put reports up and also taking into consideration the pre-election caretaker period.

ACTION

THAT the Finance Committee note the 2020/21 Annual Audit Engagement Plan and key audit issues and risks included in the Plan.

MOVED: Councillor S Ring

SECONDED: Councillor R Thompson

5.2. Working Capital Strategy

The Working Capital Strategy will be reported to the April Council meeting.

The report provides information on what working capital is and the strategy to build a working capital fund in the 2021 calendar year.

We have had a clear strategy in recent years to hold minimal cash and maximise investment returns on Council's reserve funds. In different economic times and with low interest rates, cashflow has been an issue and it is time to have a buffer of funds which are held in unrestricted cash to cover Council's immediate cash needs. This also helps to ensure that we cease the practice of recent times of utilising reserves to cover Council's short term cash needs.

March and April are expected to be cashflow negative with minimal cash receipts. May is a rates instalment month with higher cash inflows. We do have water accounts issued in April and we have already seen some cash coming in for these accounts.

When we report each quarter on the reserve balances, the working capital fund shows as an unrestricted amount.

The General Manager queried the catch-up opportunity for sewer fund tax equivalents for 2019. The CFIO advised that there was current capacity with the balance of the sewer fund to pay the 2019 tax equivalents.

We have already started the working capital fund with \$232K and will build the reserve over the course of this year. In the meantime we just have to closely monitor the cash going in and out.

There will be a recommendation to take 3 more projects out of this year's programs to help conserve cash. 2 projects are slope stabilisation and we are waiting on a bushfire grant funding application for those projects. If we are not successful with the grant application, the projects will need to go ahead in 2021/22 in a modified form. In addition, the solar panels project for the Aquatic Centre has not yet commenced.

For the remainder of the current financial year, we need to make sure that IS employment costs are being put to grant funded works as much as possible. Director IS is currently focused on the local roads and community infrastructure maintenance projects, as well as the flood repairs which are a natural disaster claim.

ACTION

THAT:

1. The Finance Committee note the information provided on Council's working capital strategy.
2. The matter be reported to Council for consideration of the working capital strategy.

MOVED: Councillor S Ring

SECONDED: Councillor R Thompson

5.3. On-costs Calculation - Further Discussion

Following the initial discussion the CFIO worked with Finance staff to scrutinise each of the components and assumptions of the on-costs calculation.

Clr Ring enquired about the calculation for sick leave in on-costs - why is this calculated in the on-costs budget? The CFIO replied that 1 week's sick leave is a component of 52 weeks of salary. Sick leave is not paid out when staff leave so it is not considered a liability of Council.

45 weeks normal pay is budgeted and the balance is budgeted in on-costs.

Superannuation is included at 14% as it has increased to 10% from 1 July 2021 plus it is higher for this Council because of the defined benefits scheme that a few staff still remain on.

CFIO will add the on-costs discussion to the May meeting agenda and provide a worked example for the Committee.

There is no on-costs standard set for Councils and it is up to each Council how they calculate their on-costs.

Clr Ring raised concerns that the on-costs calculation is high compared to what the private sector uses which can impact modelling of whether it is more cost effective to outsource or use internal labour.

ACTION

THAT the CFIO provide a further report on the proposed change to the methodology for calculating on-costs for budgeting purposes with a worked example.

MOVED: Councillor S Ring

SECONDED: Councillor R Thompson

5.4. March 2021 Performance Reporting to the OLG

We are now on 6 month reporting to the OLG, due at the end of March and September.

The OLG specifically requested a copy of the most recent quarterly budget review statement and a brief summary of the budget review statement was also provided.

We only have two long term financial maturity assessment actions which were planned to be completed over a number of years. This includes items such as Service Reviews that we are working through progressively.

Other performance improvement actions were also included, as well as items that came from the Audit management letter.

ACTION

THAT the March 2021 Performance report to the OLG be noted by the Committee.

MOVED: Councillor R Thompson

SECONDED: Councillor S Ring

5.5. Cashflow Update

March was cashflow negative with minimal cash receipts and steady cash outflows.

Rates debtors are close to the balance at same time last year, indicating an improvement in outstanding rates. The quarter 2 budget review will be reported to the May Council meeting.

We have identified 3 projects that will be deferred to next financial year. The project deferrals will be reported to the Council in the May report on the budget review for consideration.

There are a number of budget strategies under development that need to come back to the Committee and Council to explain the methodology and to work through each of them. Included in these strategies is a review of the property portfolio.

The Social impact and Financial impact both need to be considered when evaluating our services and service delivery.

A 5% SRV has been included in the Long Term Financial Plan. The proposed SRV percentage has been kept to a minimum to support Council's long term financial sustainability, as well as renewal and maintenance of assets.

A report will be provided to a Committee meeting in relation to mining rates. Councillors and senior staff visited Musswellbrook Council last week and heard what they have been doing in terms of mining rates. There will be discussions with Musswellbrook GM to see if there are any principles that might be applicable for us, there could be principles we can apply.

Another issue is the change of mine valuation methodology which has impacted rating revenue. There are lower rates on older mines and rates are based on the life of the mine. A mining ratepayer appealed against the increased valuations so there is an impact on 202021/ rating revenue. Further details will be provided in a future report to the Committee.

Outstanding rates and waters debtors have improved since the beginning of the pandemic. The cashflow issues at the moment mainly relate to cash outflows for significant capital works projects. Many projects are grant funded, however, we usually complete the work and then claim the grant so there is a lag between the work being done and the cash coming in.

ACTION

THAT the Finance Committee note the cashflow update and the recommendations for remedial action to improve Council's cashflow position.

MOVED: Councillor R Thompson

SECONDED: Councillor S Ring

5.6. Draft 2021/22 Budget Update

The budget and Operational Plan will go to the April Council meeting for public exhibition.

There had been amendments since the information session to the budget which has improved the budget operating result (before capital) which compares favorably with the long term financial plan.

We have deferred 3 projects which will be added to next year's program, one is the slope stabilisation at Macauley Street. We are awaiting the outcome of a grant application for this project. The grant announcement is not likely until June.

We are still making changes to the budget which will be included in the final report to the June Council meeting with an explanation of the changes.

CFIO will provide more information on the 10.15% increase to the rural waste disposal charges. GM advised that any fees and charges that have significant increases will have specific commentary on the increases included in the April Council meeting report and attachments..

Next year is a one year budget and we have a number of strategies to develop and implement for Council's long term sustainability. We need to be on track with the Long Term Financial Plan targets and meeting all of the OLG performance indicators over 10 years, including spending enough on asset renewal.

The Draft Operational Plan will come to the April meeting and go on exhibition throughout May. It will be sent to various groups for consultation and Council will hold a community meeting.

ACTION

THAT the Finance Committee note the changes made to the draft 2021/22 budget since the Councillor Information Session on 29 March 2021 which have improved the consolidated Operating Result (before Capital).

MOVED: Councillor S Ring

SECONDED: Councillor R Thompson

5.7. Investment Report March 2021

There was a lower cash and investments balance at the end of March due to higher cash outflows.

YTD interest income about \$183,000, \$40,000 under budget – a budget variation at the Quarter 3 review may be required to correct the budget.

At present, Council is receiving 0.4% on term deposits.

RECOMMENDATION

THAT

1. Investments of \$26,796,526 and cash of \$524,935 for the period ending 31 March 2021 be noted.
2. The enclosed certificate of the Responsible Accounting Officer be noted.

MOVED: Councillor R Thompson

SECONDED: Councillor S Ring

6. General Business

GM and Mayor gave an update to the Committee on their discussions with Muswellbrook Council.

We need to look at a step change and utilising the capacity that we have. Discussions with Muswellbrook will help us with our advocacy.

The Economic development Committee need to discuss possible avenues for change.

ACTION

THAT the Committee note the report from the Muswellbrook discussions.

MOVED: Councillor S Ring

SECONDED: Councillor R Thompson

7. Meeting Close

Next Meeting: Monday 10 May 2021 at 4.30pm in the GM Meeting room.

There being no further business the Chairperson declared the meeting closed at 4.41pm.